

**SAME BED, DIFFERENT DREAMS:
A CASE STUDY OF
JV OFFSHORE SURVEY CO., LTD
(A JOINT-VENTURED COMPANY IN CHINA)**

BY

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ABSTRACT

JV was a more than 20 years old joint-ventured offshore survey company in China providing positioning, ROV and construction support services primarily to the local oil and gas industries. The company had built a reputable stand in the local DGPS positioning market. However, the company was facing revenue descendant due to fierce competition, especially in the ROV and construction support market. The weak and intense competition found in the domestic market had led to a dispute between both the parent companies over the future direction of JV. Failure to align both companies towards a same objective paralyzed the company's operation.

The purpose of this study is to renew JV's strategic focus by identifying its core competencies, threats, and untapped potential markets to increase and sustain the company's revenue growth in years to come.

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APPROVAL

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APPENDIX VIII

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Attached are the following documents for your evaluation and examination.

Chapter 1: Introduction
Chapter 2: Case Analysis and Solution
List of References

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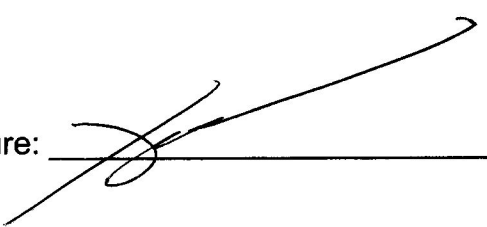
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DECLARATION

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I hereby declare that this project paper is the result of my own work, except for quotations and summaries which have been duly acknowledged.

Signature:  Date: 2 Dec 2006

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LIST OF ABBREVIATIONS / NOTATIONS / GLOSSARY OF TERMS

JV	: The JV Offshore Survey Co.,Ltd
SUBCO	: A subsidiary company of the CNOOC
GSC	: Global Survey Company
CNOOC	: China National Offshore Oil Corporation
CNPC	: China National Petroleum Company
SINOPEC	: China National Petrochemical Corporation
GEOPHY	: Geophysical department of SUBCO
GEOTECH	: Geotechnical Center of Geophysical Department, SUBCO
COOES	: The engineering / offshore construction arm of the CNOOC
IRM	: Inspection, Repair and Maintenance
ECS	: East China Sea
ROV	: Remotely Operated Vehicle

1 INTRODUCTION

JV Offshore Survey Co, Ltd (JV), a joint-ventured company of Global Survey Company (GSC) and a subsidiary of China National Offshore Oil Corporation (SUBCO), was the largest offshore survey company in China providing service mainly to the offshore petroleum industry. This Shenzhen-based survey company, with a primary operating division in Tian Jin, held a total recruitment of 93 employees. Under its marine survey sector, JV's objective was aligned according to the following aims:

Business Line	Services
Positioning	DGSP Positioning Networks
	Seismic navigation
	Rig positioning / VSP
	Tail buoy tracking
Remotely Operated Vehicle (ROV)	Drill Support
	IRM (Inspection, repair & maintenance)
Oilfield Construction Support	Pipeline & Structures installation
	Geophysical Survey

1.1 Critical Incident

The Chinese government had adopted the policy of reform and opening-up in the late 70's. The reform was meant to improve and develop the socialist system and the opening-up aiming to strengthen the comprehensive national strength by means of taking in advanced science and technology, management experience and fine cultural results from alien lands. (People's Daily, 2002)

It was indeed the best of time for Global Survey Company (GSC) to enter into China via the Equity Joint Venture (EJV) with SUBCO, a subsidiary of one of China's largest offshore oil producer CNOOC. The Joint Venture company (JV) was set up on a common agreeable ground where local partner was to offer a marketplace for the company in exchange for the latest positioning system and technology from the foreign investor. The Chinese partner was far more concerned about what value that foreign investor was to bring in, helping their country to develop further. The values were usually in the form of new technology or jobs. (Vanhonacker,1997)

At the beginning, JV was a predominately positioning company, operated under the monopoly market structure. However, 20 years later after the joint venture, JV had grown enormously causing its business segment to expand and merge with other services including ROV and construction support.

At the meantime, upon 20 years of reformation, the economy and opportunity in China had also changed causing more challenges to JV who wished to operate within its border. The marketplace in China has rapidly evolved, fragmented, and became more competitive as local competitors had, through the years, developed their own expertise in the field; while many international companies were trying to establish a role in the country. The macro environmental changes had result to the change of market structure from monopoly to monopolistic competition.

With more and more local companies equipped themselves with local expertise and new-developed technologies, the technologies which were once perceived as the core compete of the foreign partner 20 years ago, were now easily substituted, causing the main objective of the join venture became weak and fragile.

In the fiscal year of 2005, JV reported a net earning of USD 2.2 million, an increase of 205% from 2004. Revenue had risen to approximately 32.5%, recording a new height to USD 16.5 million from USD 12.5 million in 2004. However, the sale revenue and particularly the net earning between 2006 to 2008 were anticipated more than a 50% drop due to the deflation of the oil construction project, the weak demand of domestic ROV market and the cost pressure in the positioning market. The decrease in revenue would persist even after 2008.

Due to the weak and intense competition found in the market, the local partner SUBCO had urged for JV to penetrate new international market for continue growth. SUBCO had always perceived JV as an independent entity exists, not only to confine in domestic market, but also to serve the international market. SUBCO hoped that its foreign partner would continue to upgrade JV's technology, increasing its competitiveness and capability both locally and abroad. The foreign partner, on the other hand, merely intended for SUBCO to provide the social and political connections required to smoothen the business operation in the market, enabling it to achieve profit maximization in China.

For the foreign partner, the present of JV in the international market might cannibalize with its existing businesses outside china. Therefore, it was not their intention, even from the start, for JV to penetrate into the oversea markets.

Both the parent companies possessed different directions for JV. While sharing the same bed – their operation in China, they had different dreams – the different objectives and goals. This scenario of “same bed, different dreams” would result to a dispute over directions and resources, paralyzing the company’s operation and eventually brought fort the downfall of the company.

1.2 Background information about the parent companies

1.2.1 Background information about the Chinese parent company

SUBCO was the leading oilfield services provider in offshore China. SUBCO's services oversaw all phases of the oil and gas exploration, development and production. Its four business segments include of drilling services, well services, marine support, transportation services, and geophysical services.

As of 31 December 2005, SUBCO owned and operated 14 drilling rigs, including 10 jack-ups and 3 semi-submersibles, and 1 rented jack-up. It was also the owner and operator of the largest and most diverse fleet of marine support and transportation vessels offshore China, owning 68 vessels, 5 oil tankers and 1 chemical tanker. In addition to that, SUBCO also owned 7 seismic vessels, 4 geotechnical survey vessels, an array of modern facilities and equipments for logging, drilling fluids, directional drilling, cementing, well completion and well work-over services.

1.2.1.1 The Geophysical Department of SUBCO (Geophy)

SUBCO Geophysical Department was a leading geophysical services provider in offshore China. This department was primarily engaged in data acquisition for seismic, survey, gravity and magnetic data offshore, and was able to provide both offshore and onshore solutions for seismic data and survey data processing.

The marine survey services provided by geotechnical center of geophysical department (GEOTECH) were seabed topographical surveying; soil sampling; oceanographic and marine environmental studies; soil geo-hazard studies and seabed foundation engineering analysis. GEOTECH owned and operated four marine survey vessels to support its marine survey services offshore china; and three light-weight drilling rigs to perform onshore geotechnical investigation. At the end of 2005, GEOTECH had also equipped itself with 2 units of ROV.

1.2.1.2 The Marketing Strategy of SUBCO

As mentioned earlier, SUBCO owned and operated large number of drilling rigs and support vessels offshore China, because of this scale of operation and lower labor costs, the SUBCO was able to offer its services under a more competitive cost structure than many international companies to service the entire offshore China and international market. The SUBCO made use of its competitive cost structure as a strong platform to serve its objective – further increase its market share in international markets.

1.2.2 Background Information about the Foreign Parent company

GSC was a specialist in the offshore, onshore and airborne data collection, processing, interpretation and management of geographical information. The company comprised of three divisions: Geotechnical division, Survey division and GeoScience division. The company's primary aim was to provide services to the oil and gas industry, the mining industry and the construction industry, including infrastructure projects.

1.2.2.1 The Geotechnical Services of GSC

The service of Geotechnical include of sampling and testing of soils and materials by scientific methods and state-of-the-art technology, as well as provision of advice based on the results for solving engineering problems both onshore and offshore.

1.2.2.2 The Survey Services of GSC

The surveying activities of GSC include the determination of the geology, the recording of the surface of the earth and the precise positioning. The survey services division comprised of onshore & offshore survey and positioning services. The offshore survey division was the market leader in offshore survey industry providing services such as offshore construction support, geophysical, oceanography & meteorology, submarine cable services, and ROV inspection and support services. The division controlled more than 20 survey vessels, a fleet of underwater Remotely Operated Vehicles (ROVs) and high accuracy differential GPS positioning business covering world-wide network.

The differential GPS positioning business comprised of the development and operation of satellite based, positioning and tracking of systems while offering a range of positioning services for in-house operation such as services in the field of survey, geoscience, geotechnics, including third party usage.

1.2.2.3 The Geosciences Services of GSC

The geosciences services division comprised of development production and airborne survey. The development production business offered a full service for marine data acquisition and processing of seismic, gravity and magnetic data. The GSC owned and operated 4 seismic vessels. The airborne survey business merely engaged in aeromagnetic survey.

1.2.2.4 The Marketing Strategy of GSC

The GSC's strategy was based primarily on rooting and expanding its existing strong market position by complementing and broadening its service package with related and relevant services. To ensure continue sustainable growth, the GSC pursued acquisitions strategy to strengthen and acquire good market position or to obtain valuable technologies.

1.3 Background of the JV Offshore Survey Co.,Ltd.

JV was founded in 1983 with the objective of bringing overseas survey positioning system to overcome the limitations of locally made survey positioning system. The system limitations were:

- The system is only available for daytime operation
- The system's operating time is merely 10 hours and was unavailable during thunder storm

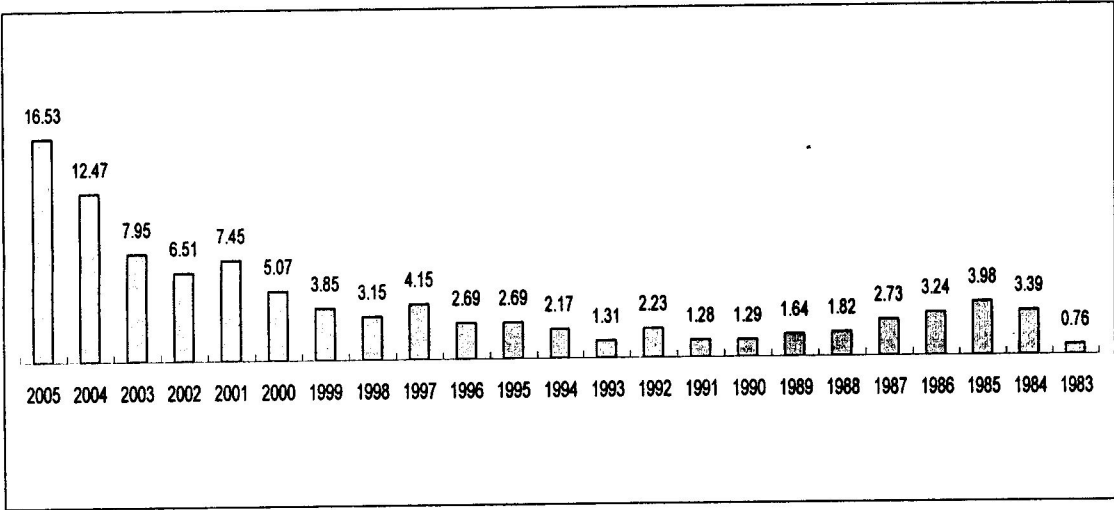
These limitations had resulted to a high operating cost due to the inefficient offshore operation.

From 1983 to 1998, JV was providing positioning services to the Chinese offshore petroleum industry, mostly to SUBCO's fleet (drilling rigs, seismic and survey vessels only) or related projects. Due to its relationship with SUBCO, JV captured close to 90% of the survey positioning market share in the Chinese offshore petroleum industry. The remaining 10% went to the survey division of the marine force and various governmental oceanographic institutions. In conclusion, JV was operating in a monopolistic market.

1.3.1 Financial Performance

For the past 15 years (1983 – 1999), the revenue of the establishment was fluctuating between USD 1 million to USD 3.9 million (see Figure 1). These figures were generated from the positioning services. It also revealed the total market share of the positioning market segment in the Chinese offshore petroleum industry.

Figure 1. The summary of revenue in millions of USD from 1983-2005



In 1998, JV realized that the positioning market segment was saturated and the company would not be able to achieve substantial growth by fully relying on this market segment. As so, the company proposed to the board of directors to diversify its product/service range by bringing in Remotely

Operated Vehicle (ROV) in 1999. The proposal was approved instantaneously. In February of 2000, JV imported its first ROV into China and successfully penetrated into the China market before end of the year.

By offering integrated packages containing survey and ROV services, JV extended its services to oilfield construction support in the following year. The oilfield construction support was a market segment that could served without requiring additional investment on equipment or capital, but demanded highly in integration of technologies amongst survey, positioning and ROV.

Following the introduction of diversified product/service range into the market in the year 2000, sales began to pick up rapidly. The sale revenue rose from USD 3.9 million in fiscal year 1999 to USD 16.5 million in 2005 (see Figure 1). The positioning, ROV and construction support business lines contributed 28%, 20% and 52% respectively to the net sale of fiscal year 2005 (see Figure 2).

The record-breaking achievement in fiscal year 2005 was allied to the company success in capturing 90% of the market share in positioning & navigation market segment; 80% market share in ROV rig support market segment; and 90% market share in construction support service market segment. In 2005, JV provided 6 ROVs to the Chinese offshore petroleum industry.

Figure 2. A breakdown of revenue by segment

